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SUBJECT: PANAMA 2007 INVESTMENT CLIMATE STATEMENT

REF: STATE 178303

A.1. OPENNESS TO FOREIGN INVESTMENT

¶1. The resolution of a number of investment dispute cases in recent years opened the way for the April 2004 start of bilateral negotiations for a free trade agreement between the United States and Panama. The negotiations concluded successfully in December 2006. As of early 2007, the re-named &Trade Promotion Agreement⁸ remained subject to final approval by the U.S. Congress and the Panama,s National Assembly.

¶2. Traditionally, Panama has maintained a rather liberal regime for foreign investment and investment in financial instruments. The Government of Panama (GOP) and the Panamanian business community actively encourage foreign direct investment (FDI). Laws in general make no distinction between domestic and foreign companies. In 1998, the GOP enacted the Investment Stability Law, which, among other things, guarantees foreign investors, who invest at least two million dollars in Panama, equal treatment under the law to that of their domestic competition.

¶3. The Panamanian Vice Ministry of Foreign Trade (VICOMEX) is the principal entity responsible for promoting foreign investment. It provides investors with information, expedites specific projects, leads investment-seeking missions abroad, and supports foreign investment missions to Panama. However, depending on the character of the planned investment, several different governmental entities may have a passive or active interest in the investment in terms of setting its parameters of operation, particularly within relevant regulations, land use, employment, special investment incentives, business licensing, etc. There is no formal investment screening process by the GOP, although the government does tend to monitor large foreign investments.

¶4. The GOP does impose some limitations on foreign ownership, such as in the retail and media sectors where ownership must be Panamanian. Foreign retailers, however, have been able to work within the confines of Panamanian law primarily through franchise arrangements. Some professions, such as medical practitioners, lawyers, and custom brokers, are currently reserved for Panamanian citizens. The GOP also requires foreigners in various sectors to obtain from the government explicit permission to work, but to Embassy's knowledge these restrictions have not hindered U.S. firms operating in Panama. Once ratified and implemented, the TPA Panama will accord substantial market access to Panama,s retail sector and across its entire services regimes, subject

to very few exceptions.

15. There is no de jure discrimination against U.S. or other foreign investors in most sectors. A domestic investment protection law was enacted in 1991 and remains in force; however, it has not yet been invoked or used in contravention of U.S. investment. There is a constitutional prohibition against foreign land ownership within ten kilometers of the national border or on an island. Neither Panamanian citizens nor foreigners may own beaches or the shores of rivers or lakes. Law 2 was enacted in 2006 to foster tourism investment on islands, beachfront and government properties through a concession, requiring projects to have an environmental impact study, financial support and bonds, as well as other requirements. Builders and investors may rent such lands for 40 years, via the Ministry of Economy and Finance, extendable for an additional period of 30 years. When there is a major investment with potential job creation, Law 2 expands this period for up to 90 years.

16. Land titling continues to be an issue for foreign investors. Outside of Panama City and a few selected areas, there is no formal land titling system. The Embassy is aware of several cases where American citizens have had their real estate title contested or where they have purchased land without obtaining the requisite land title. Embassy is aware of various schemes to defraud foreign real estate buyers in such popular areas as Bocas del Toro. Law 2 of 2006 clarified ownership rights for Panamanian coastal and island properties. Law 2 confirmed the validity of existing & Rights of Possession⁸ (ROP) ownership rights (a concept similar to squatter,s rights) and established a process to convert ROP to a title (similar to a property title deed). The underlying regulations remain in draft form and some are concerned that indigenous holders of ROPs may be financially unable to convert their ROPs to titles. Under Law 2, those not in possession of a ROP for island property must now obtain a concession from the GOP to continue occupying such property. Some U.S. investors find themselves having to defend their ROP rights against claims of previous title and various spurious claims. The Panamanian courts are slow and at times arbitrary in resolving property disputes.

17. Panama experienced a boom in foreign investment during the late 1990s as a result of GOP privatization and modernization efforts. program. Foreigners, including U.S. firms, participated actively and successfully in the privatizations of ports, electrical generators, and telecommunications firms. The conduct of major public bids and tenders for some public sector projects raised concerns about the openness and transparency of the process and the responsiveness of authorities to participants. U.S. companies complained that some bidding processes lacked transparency.

18. The Panamanian government has "corporatized" Tocumen International Airport as a private entity, with all shares owned by the GOP. The airport is undergoing a \$70 million expansion of the passenger and cargo terminals. Historically, the GOP pledged not to privatize its inefficient water and sewage utility, its electric transmission company, & Atlapa⁸ (Panama,s primary convention center and the largest such facility in Central America), or the Caja de Seguro Social (Social Security System). However, in October 2006, GOP officials began to discuss the possible privatizations of various state-owned enterprises in order to lower the level of public sector indebtedness.

19. Panama's privatization framework law does not distinguish between foreign and domestic investor participation in prospective privatizations. The law calls for pre-screening of potential investors or bidders in certain cases to establish technical viability, but nationality and Panamanian participation are not criteria.

10. Following the privatizations of the late 1990s, Panama's FDI dropped to only \$98.6 million in 2002, primarily as a

result of losses by major banks and the drop-off in privatizations. However, FDI rebounded dramatically to nearly \$800 million in 2003 and over \$1 billion in 2004 and 2005 as a result of major investments in port expansions, Colon Free Zone profits, the sale of shares of a telecommunication company, dividends from the electrical companies, as well as a resurgence of the banking sector. There are announced projects in the energy sector, golf courses, residential and commercial construction (including the planned 102-story "Ice Tower," which would be the tallest building in Latin America). A \$600 million new megaport near the Pacific entrance of the Panama Canal was announced by the GOP in 2006. However, despite GOP efforts to attract bidders in late 2006 for a contract to design, build and operate the megaport, only five firms (including one US firm) bid on the project. The project is currently being scaled back and its future is uncertain.

¶11. On October 22, 2006, Panamanians voted by a margin of 78% to 22% to approve a \$5.25 billion project to expand the Panama Canal by constructing a new third set of locks, along with new access navigational channels and deepening the existing navigational channels and the depth of Gatun Lake. In addition, voters approved the construction of a \$300 million bridge over the Caribbean entrance to the Panama Canal which was added to the canal expansion project by the Panamanian legislature. Construction will begin in 2008 and continue for seven to eight years. The project will be financed through increased tolls and a budgeted \$2.3 in debt financing. Given the size of the project and the Panama Canal Authority's announced policies, foreign companies will be able to bid on such contracts on the same terms and conditions as Panamanian companies. Moreover, once ratified and implemented, the TPA will ensure that U.S. suppliers are granted non-discriminatory rights to bid on purchases of Panamanian government ministries and other entities, including the Panama Canal Authority. The TPA's government procurement provisions include the purchases of all of Panama's first-tier sub-central entities (comparable to U.S. states); and requires fair and transparent procurement procedures, including advance notice of purchases, and timely and effective bid review procedures.

¶12. The Panamanian government developed some of the U.S. government properties transferred to Panama by the United States from 1979 through December 1999. The commuter airport development at the former Albrook Airfield, now known as Marcos A. Gelabert Airport, has been one of the most successful ventures. Other projects now underway include major tourist projects at the former Fort Amador, as well as a museum of ecology designed by world-renowned architect Frank Ghery. In December 2005, the luxury resort, Playa Bonita, was completed in the Farfan area on the Pacific coast. On the former Howard Air Base, Dell Corporation opened a customer service call center in August 2003 that employs about 2,000 people. Progress in the academic and research community (City of Knowledge) has been slow but steady. Several U.S. universities have located campuses in various former military installations as well as international and regional organizations.

¶13. Panamanian Law forbids monopolistic and anti-competitive behavior. The GOP passed in February 1996 an Antimonopoly Law, designed to prevent monopolistic practices and create a consumer protection authority. Although Panama's Free Competition and Consumer Affairs Commission (CLICAC) was set up to protect consumers against practices such as the sale of expired products to price gouging, it was widely viewed as ineffective and under-funded. In February 2006 the Torrijos Administration enacted by "decree law" the elimination of CLICAC and creation of a new "Authority for Consumer Protection and Defense of Competition." The GOP's aim is to create a more agile entity with greater autonomy and stronger capabilities to protect consumer rights by combating false advertising, monopolistic practices and unfair competition.

A.2. CONVERSION AND TRANSFER POLICIES

¶14. Panama has no legal restrictions on the transfer abroad of funds associated with or capital employed in an investment. There are no restrictions on capital outflows or convertibility. Panama uses the U.S. dollar as legal tender. Currency conversion therefore is not an issue. There is, therefore, no independent monetary policy in Panama. Inflation, bound by the U.S. dollar, is low and predictable. According to the IMF, "dollarized Panama has had significantly lower inflation (and inflation volatility) at a cost of more volatile GDP growth." Although inflation topped 3.5% in Panama during 2005 owing to high fuel prices, it has since fallen to 2% as of late 2006. Panama's annual inflation averaged less than 3.2% over the previous 30 years. This apparent predictability enhances the attraction of foreign investment.

A.3. EXPROPRIATION AND COMPENSATION

¶15. The Embassy is unaware of any outright expropriation of property by the Panamanian government in recent years. Very few U.S. investors have alleged that irregular or illegal actions of some government entities, past and current, have resulted in "de facto" expropriation of their property.

A.4. DISPUTE SETTLEMENT

¶16. Panama has a court and judicial system built around a civil code, rather than the Anglo-American system of reliance upon case law and judicial precedent. Fundamental procedural rights in civil cases are broadly similar to those available in U.S. civil courts, although some notice and discovery rights, particularly in administrative matters, may be less extensive than in the U.S. Judicial pleadings are not always a matter of public record, nor are the processes always transparent.

¶17. The business community lacks confidence in the Panamanian judicial system as an objective, independent arbiter in legal or commercial disputes, especially when the case involves powerful local figures with political influence. When disputes with foreign investors arise the investors often choose not to pursue remedies available to them via the court system. The court system is slow and prone to massive case backlogs and corruption.

¶18. An increasingly popular and viable alternative for settling disputes, particularly in the construction sector, is the Center for Mediation and Arbitration established by the Panamanian Chamber of Commerce. Depending on the issues there are other disputes resolution centers as the Panamanian Construction Chamber, and the Supreme Court. Rulings by arbitrators are generally fair and reasonable. In 1998, these rulings were given status as judicial rulings.

¶19. The GOP accepts binding international arbitration of disputes with foreign investors. Panama became a member of the International Center for the Settlement of Investment Disputes (ICSID) in 1996. The United States and Panama signed an amendment to the Bilateral Investment Treaty to incorporate Panama's membership into ICSID on June 1, 2000. This amendment took effect in May 2001. Panama also became a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA) in 1997.

¶20. Once ratified and implemented, the TPA will solidify the legal framework for U.S. investors operating in Panama. All forms of investment will be protected under the agreement, including enterprises, debt, concessions and similar contracts, and intellectual property. With very few exceptions, U.S. investors will be treated as well as Panamanian investors (or investors of any other country) in the establishment, acquisition, and operation of investments in Panama. The TPA draws from U.S. legal principles and practices to provide U.S. investors in Panama substantive and procedural protections that foreign investors currently enjoy under the U.S. legal system. The TPA's investor protections are backed by a transparent, binding international

arbitration mechanism, under which investors may, at their own initiative, bring claims against a government for an alleged breach of the TPA's investment chapter. Submissions to investor-state arbitral tribunals will be made public, and hearings will generally be open to the public. Tribunals will also be authorized to accept amicus submissions from non-disputing parties.

¶21. Panama's bankruptcy law is antiquated and remains under review to be adapted to modern business practices.

A.5. PERFORMANCE REQUIREMENTS/INCENTIVES

¶22. There are no legal performance requirements such as minimum export percentages or significant local procurement rules. There are special tax and other incentives for manufacturers to locate in an export-processing zone (EPZ). Official support for investment and business activity is especially strong for the Colon Free Zone (CFZ), the banking sector, the tourism sector, and EPZs. Companies in the CFZ pay no income taxes. Banks and individuals in Panama pay no tax on interest or other income earned outside Panama. No taxes are withheld on savings or fixed time deposits in Panama. Individual depositors do not pay taxes on time deposits. EPZs offer tax-free status, special immigration privileges, and license and customs exemptions to manufacturers who locate there.

¶22. Law 8 of 1994 offers tax and other incentives to investors in tourist industries. As part of the Torrijos, Administration's review of all fiscal incentive programs, the GOP has decided to eliminate certain incentives contained in Law 8. The GOP will remove the incentives granted to investments in new casinos, shopping malls, and night clubs. It is contemplated that the GOP will maintain the incentives related to residential projects, such as hotels, apartment-hotels, hostels and time shares.

¶23. In 1997, the Panamanian government enacted legislation to promote the restoration of historical buildings and sites Panama City's old downtown area known as "Casco Viejo." Tourism incentive laws provide, among other measures, tax exemptions for vehicles and other designated goods imported for use in, or to build infrastructure for, the tourist sector. Similar incentives exist for the mining sector. Legislation affecting the mining sector is under review. Law 28 of 1995 extended national industry and export incentives. However, contracts that were created prior to Law 28 continue to receive the benefits of the previous incentives. In 1997, the GOP eliminated tariffs on fuel imported by electricity generators to promote privatization of the former state electric company. The government has gradually phased out tariff incentives that favor the importation of raw materials for further processing in Panama. The Torrijos Administration is also reviewing fiscal incentive programs as part of its overall fiscal reform.

A.6. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

¶24. With the current exception of retail trade, the media, and a few professions, foreign and domestic entities have the right to establish, own, and dispose of business interests in virtually all forms of remunerative enterprise. Once ratified and implemented, the U.S.-Panama TPA Panama will accord substantial market access across its entire services regimes, subject to very few exceptions, using a "negative list" approach. Under the TPA, Panama agreed to dismantle significant services and investment barriers, such as lifting restrictions on investment in retail trade, ensuring access to contracts related to the Panama Canal, and providing new access in professional services that previously had been reserved exclusively to Panamanian nationals. This will allow U.S. firms to take full advantage of the benefits of the TPA across all sectors, including, but not limited to express delivery, logistics, energy, audiovisual, computer, construction, wholesaling, health, education, and environmental services. U.S. financial service suppliers have full rights to establish subsidiaries or branches for banks

and insurance companies. Portfolio managers in the U.S. will be able to provide portfolio management services to both mutual funds and pension funds in Panama. Foreigners need not be legally resident or physically present in Panama to establish corporations or to obtain local operating licenses for a foreign corporation. Business visas (and even citizenship) are readily obtainable for significant investors. Banking, financial services, and the legal profession are receptive toward attracting foreign business.

A.7. PROTECTION OF PROPERTY RIGHTS

¶25. Some of Panama's business, corporate, and banking codes have been modernized and are, in general, enforced so as to strengthen confidence in property rights. Mortgages, liens, and other security interests are recognized. The public property registry is undergoing expansion and modernization. Unique features of Panamanian law and practice in specific areas (including but not limited to banking, accounting requirements, formation and functioning of corporations, and taxation) make retention of local legal counsel highly advisable.

Intellectual Property Rights

¶26. Panama is a member of the World Intellectual Property Organization (WIPO), the Geneva Phonograms Convention, the Brussels Satellite Convention, the Universal Copyright Convention, the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the International Convention for the Protection of Plant Varieties. In addition, Panama was one of the first countries to ratify the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, although the government has yet to introduce implementing legislation to put these treaties fully into force in Panama. Panama is not a signatory to the Patent Cooperation Treaty, Trademark Rights Treaty and the Madrid Protocol. Should Panama conclude a Free Trade Agreement with the United States, Panama would become a signatory to these agreements.

¶27. The legal framework for the protection of intellectual property rights (IPR) in Panama has improved significantly in recent years. The government passed an Anti-Monopoly Law in 1996 mandating the creation of commercial courts to hear anti-trust, patent, trademark, and copyright cases exclusively. Two district courts and one superior tribunal began to operate in June 1997 and have been adjudicating intellectual property disputes. IPR policy and practice in Panama is the responsibility of an Inter-institutional Committee for Intellectual Property (CIPI). This committee consists of representatives of six government agencies and operates under the leadership of the Vice-Minister of Commerce. CIPI coordinates enforcement actions and develops strategies to improve compliance with the law, including organizing training and public awareness seminars, among other activities. In January 2003, the GOP designated an IPR-specific prosecutor with national authority, which has consolidated and simplified prosecution of those cases. The U.S.-Panama TPA provides for improved standards for the protection and enforcement of a broad range of intellectual property rights, which are consistent with both U.S. standards of protection and enforcement, and with emerging international standards. Such improvements include state-of-the-art protections for digital products such as U.S. software, music, text, and videos and; stronger protection for patents, trademarks and test data, including an electronic system for the registration and maintenance of trademarks.

Copyrights

¶28. The National Assembly in 1994 passed a comprehensive copyright bill (Law 15), based on a World Intellectual

Property Organization model. The law modernizes copyright protection in Panama, provides for payment of royalties, facilitates the prosecution of copyright violators, protects computer software, and makes copyright infringement a felony.

129. The Copyright Office has yet to introduce long-promised improvements to the Copyright Law to implement the new WIPO treaties (the WIPO Copyright Treaty and the WIPO Performances and Phonographs Treaty) and to establish new offenses, such as those needed for internet-based copyright violations and to enhance border measures.

Patents

130. Panama's Industrial Property Law (Law 35) went into force in 1996 and provides 20 years of patent protection from the date of filing. The Industrial Property Law provides specific protection for trade secrets. However, at least one pharmaceutical company has raised the alarm that these protections are not being respected by the office of the Ministry of Health that registers generic medicines, though the Ministry is attempting to address the concerns.

Trademarks

131. Law 35 also provides trademark protection, simplifying the process of registering trademarks and making them renewable for ten-year periods. The law's most important feature is the granting of ex-officio authority to government agencies to conduct investigations and to seize materials suspected of being counterfeited. Decrees 123 of November 1996 and 79 of August 1997 specify the procedures to be followed by Customs and Colon Free Zone (CFZ) officials in conducting investigations and confiscating merchandise. In 1997, the Customs Directorate created a special office for IPR enforcement, followed by a similar office created by the CFZ in 1998. The Trademark Registration Office continued to undertake significant modernization in 2005 with the introduction of imaging and workflow automation of their processes and on-line application processing. This includes a website that allows applicants to track the status of their Trademark and Patent applications and the creation of a Customer Service Center. The Trademark Registration Office claims to be the most advanced in the region, with 90% automation. This office reports that it has reduced trademark registration processing time in half, down from one year to six months. This office also reports that it has conducted classes on the importance of IPR protection at the Technical University of Panama and recently sponsored a National Inventor's Competition that brought inventors together with prospective investors and customers.

A.8. TRANSPARENCY OF THE REGULATORY SYSTEM

132. Panama's 1997 accession to the WTO, wholesale privatization, and overhaul of various laws that regulate economic activity created a fluid regulatory climate. Panamanian regulators have been exposed only recently to complex issues, many of them technical. Regulators' responsiveness to the concerns of those they regulate has been mixed, depending on the sector. U.S. businesses had complained for several years of arbitrariness or a lack of responsiveness by officials responsible for issuing sanitary/phytosanitary (SPS) permits for the importation of agricultural products. They also complained about unannounced and costly sanitary controls imposed upon arrival of various shipments of agricultural products that had previously been pre-cleared for importation. In December 2006, the U.S. and Panama signed a bilateral agreement on SPS measures in which the Panamanian government agreed to recognize the equivalency of the U.S. food safety inspection system and to require only USDA Food Safety Inspection Service & Certificates of Wholesomeness⁸ (or other applicable export certificates of U.S. authorities) for the importation and sale of meat and poultry products from the U.S. In February 2007, Panama's Health and Agriculture

Ministries published resolutions formally granting this equivalency. In early 2006, the Torrijos Administration created the Panamanian Food Safety Authority (&AUPSA8), which assumed control over the inspection of all food imports into Panama as of November 15, 2006. AUPSA established an online system to ensure transparency and prompt processing for the importation of food products into Panama.

¶33. Public Utilities and telecommunications industries long complained of slowness of Panama's Regulatory Entity ("Ente Regulador") in responding to competitive concerns or requests for information. In February 2006, the Torrijos administration enacted by "decree law" the elimination of the Ente Regulador and creation of a new "National Public Services Authority." The GOP's aim is to provide more effective oversight by separating administrative and regulatory functions related to water, electricity, and telecommunications providers. The National Public Services Authority's director has taken steps to resolve regulatory disputes in the electricity and telecommunications sectors. In the banking and finance sector, private entities generally give good marks to the Panamanian entities that regulate them, such as the Superintendent of Banks.

¶34. On July 12, 2006, Panama enacted Law 27 which allows the Government of Panama to create enterprises to conduct oil and gas exploration, distribution, production, storing, industrialization, commercialization, importation, exportation and refining activities. Certain American companies have expressed concern that Law 27 is ambiguous and may result in greater government intervention and restrictions on the energy sector.

A.9. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

¶35. Panama's 1998 Banking Law regulates the country's financial sector. The law, which concentrates regulatory authority in the hands of a powerful and well-financed Superintendent, transformed the previously inadequate regime into one that is by and large able to meet international standards. The Bank Superintendent has worked since 2004 toward bringing Panama's bank supervision up to &Basel II8 standards. In July 2006, the Bank Superintendent reported that Panama largely complies with the international standards for effective bank supervision. However, the Superintendent determined that, to fully meet Basel II standards, Panama needs to bolster and modify its regulatory framework for banks in areas such as capital adequacy; liquidity, market risk, and loan and investment portfolio ratings.

¶36. Traditional bank lending from the well-developed banking sector is relatively efficient and is the most common source of financing for both domestic and foreign investors, offering the private sector a variety of credit instruments. Panamanian interest rates closely follow international rates (i.e., the London Interbank Offered Rate - LIBOR), plus a country-risk premium. The rate on a domestic commercial loan averaged 8.3% in 2005 and increased to 9.00% as of December 12, 2006. The six-month domestic deposit rate was 3.0% as of December 12, 2006. Total assets in Panama's banking system topped \$44.8 billion in December 2005 and grew to \$49.5 billion as of September 30, 2006.

¶37. Early in 1999, Panama passed a securities law that established a National Securities Commission to regulate brokers, fund managers, and all matters related to the securities industry. The Commission began to function in early 2000. Some private companies, including multinational corporations, have issued bonds in the local securities market. Companies rarely issue stock on the local market and, when they do, they often try to issue shares with no voting rights. As a result, these stocks are less attractive than those with voting rights. Moreover, investor demand is generally limited because of the small pool of persons, companies, and investors with the resources to invest.

¶38. In 2006, Panama, El Salvador and Costa Rica entered into an agreement to develop a regional, centralized stock

exchange in 2007. The goal of the exchange is to provide greater liquidity to the existing exchanges. The new exchange will be U.S. dollar-denominated, trade equity and debt issues, and will operate in addition to, and not replace, the existing national exchanges.

¶39. Interest from fixed bank deposits and certain bonds are tax-exempt. There is a 10% withholding tax on dividends, although capital gains from the sale of equities listed on the Panamanian exchange is tax exempt. Cross-shareholding or stable shareholder arrangements, designed to restrict foreign investment through mergers and acquisitions, do not exist. There are no restrictions on, nor practical measures to prevent, hostile foreign investor takeovers, nor are there regulatory provisions authorizing limitations on foreign participation or control or other practices to restrict foreign participation. There are no government or private sector rules to prevent foreign participation in industry standards-setting consortia.

¶40. Financing for consumers is also relatively open, as mortgages, credit cards and personal loans, even to those earning modest incomes, are widely available on terms similar to those in the U.S.

A.10. POLITICAL VIOLENCE

¶41. Panama's Constitution provides for the right of peaceful assembly, and the Government generally respects this right. No authorization is needed for outdoor assembly, although prior notification for administrative purposes is required. Throughout 2006, police showed restraint and professionalism while monitoring protests by retirees, students, political activists, and the teachers, union.

¶42. Political violence in Panama since the end of the Noriega era in 1989 is not common, but there are exceptions. Between April and June 2005, Panamanian police forces peacefully subdued large, potentially violent nation-wide protests against Social Security reforms with few complaints of use of force. A local protest against utility rate hikes in Bocas del Toro in October 2004 left 24 PNP officers wounded and ended with charges of police brutality by the protesters. The charges were subsequently dismissed when the police presented video evidence that they acted in self-defense. September 2003 protests spurred by the ouster of Social Security Director Juan Jovane turned violent when construction workers led by the SUNTRACS labor union attacked police. In 2002, there were several public demonstrations, including a major public protest against corruption in Panama City. Several times during the year, rural groups protested against the presence of Panama Canal authorities in the watershed and potential expansion of the Canal. In August 2002, rioting broke out in Colon for two days, ostensibly to protest persistently high unemployment, halting commerce and causing minor property damage.

¶43. Two high-profile incidents in 2001 were triggered by the government's decision to allow bus owners to raise fares and by the delay in raising the minimum wage (which was increased in August 2003). The former led to weeklong riots that caused over 20 injuries, hundreds of arrests, and sporadic looting in the capital. Opposition to the proposed privatization of the state water utility in 1998 also led to vociferous, but generally nonviolent, protests. The lack of economic opportunities, a high overall unemployment rate (officially at 8.6% as of late 2006, but much higher in certain areas), increasing gang-related activity and a growing use of illicit drugs have been cited as the chief causes of crime.

A.11. CORRUPTION

¶44. Panama is a member of the Organization of American States (OAS) Inter-American Convention Against Corruption (IACC), but not a signatory to the OECD Convention on Combating Bribery. Panama's submission to the IACC lacks empirical examples of how its anti-corruption laws have been applied. The general perception is that anti corruption laws

are not applied rigorously and that the government enforcement bodies, such as the Comptroller General's and the Attorney General's offices, have been ineffective in pursuing and prosecuting those accused of corruption, particularly in high-profile cases. However, the Torrijos Administration has taken steps to permit official investigation of corruption cases involving public officials and the public release of information regarding government activities and expenditures.

Constitutional reforms that permit the Supreme Court to decide whether to investigate or indict legislators while in office were implemented on November 15, 2004. However, the Torrijos Administration has since rescinded some of its anti-corruption measures. In July 2006, President Torrijos signed Law 25 which restored some of the legislative immunities eliminated in earlier constitutional reforms. The government has not acted to dismantle Panama's dictatorship-era libel and contempt laws, which often are used to punish whistleblowers, while those accused of acts of corruption are seldom prosecuted and almost never jailed. Panama's government lacks strong systemic checks and balances that incentivize accountability. The lack of a strong professionalized career work force in Panama's public sector also hinders systemic change.

¶45. Allegations of corruption have been endemic for many years. Complaints by American firms about allegedly corrupt judicial and governmental decisions prejudicial to their interests remain problematic. In 2005, the Torrijos Administration successfully reversed a deal struck between the Moscoso Administration and Panama Ports Company (PPC) that would have enabled PPC to walk away from \$1.4 billion in payments to Panama as part of a 40-year port concession agreement. Amid allegations of corruption in the Moscoso-PPC deal, the Torrijos Administration successfully renegotiated new terms for the agreement with PPC that effectively erased the Moscoso-PPC deal.

¶46. Since taking office in September 2004, the Torrijos Administration took steps toward following through on its "zero tolerance" anti-corruption campaign, including the launch of investigations into the finances of several prominent figures in the Moscoso Administration. The GOP rescinded former President Moscoso's June 2002 decree that impeded enforcement of the January 2002 Transparency Law. Moscoso's decree imposed regulations that hindered access to information on public entities. In addition, President Torrijos established a "National Council for Transparency Against Corruption" that makes recommendations to the President, but the Council's influence on the administration is not strong. Meanwhile, several high-profile cases remain unresolved by the Panamanian courts. The Torrijos Administration also passed a package of fiscal and social security reforms through the National Assembly that included increased transparency measures.

¶47. Corruption in Panama's Supreme Court remains a significant public concern. In March 2005, four Court magistrates hurled accusations of corruption against each other, provoking wide-spread public demands for the dismissal of all nine justices. In response, President Torrijos created a State Justice Commission to recommend improvements to the administration of justice, mainly in the areas of transparency, efficiency and public accessibility. The Commission released its report in October 2005, but thus far no long term substantial changes have been made. In November 2005, the National Assembly's Judicial Affairs Committee dismissed a complaint filed by NGO Alliance for Justice against eight of the nine magistrates for questionable rulings. Coincidentally, a day later the U.S. government revoked the visa of Supreme Court magistrate Winston Spadafora under section 212(f) of the Immigration and Nationality Act (regarding public corruption).

¶48. Although Panama's overall efforts to combat public corruption have been lackluster, both the Attorney General and Comptroller General have worked to improve the transparency of their organizations and pursue public corruption. The GOP has also launched new websites, such as

"Panama Compra" ("Panama Buys"), to foster greater transparency. All GOP agencies must now post procurement solicitations online and will only be able to receive online bids. Awards will be posted on the website. The GOP has also launched &Panama Tramita8 (&Panama Transacts8) and &Panama Emprenda8 (&Panama Undertakes8) and other online systems to simplify and increase transparency in government bureaucratic processes and in establishing new businesses.

1B. BILATERAL TRADE AND INVESTMENT AGREEMENTS

149. The U.S. and Panama concluded negotiations on a &Trade Promotion Agreement8 (TPA) in December 2006. As of early 2007, the TPA remained pending signature and final approval by the U.S. Congress and Panama,s National Assembly. Panama currently has bilateral free trade agreements with El Salvador, Taiwan (Taiwan's first such accord), and Singapore.

In December 2006, Panama,s National Assembly unanimously approved the Panama-Chile free trade agreement. In the 1990s, Panama had negotiated a framework for free trade negotiations with all five countries of Central America, although many of these are on hold. The GOP is currently negotiating bilateral free trade agreements with Guatemala and Costa Rica. The Torrijos Administration also seeks to deepen Panama's trade integration with Andean and Mercosur countries. By regional standards, Panama has been a strong advocate of trade liberalization. For example, Panama joined with the U.S., Mexico, and Chile in pushing for progress on a Free Trade Area of the Americas (FTAA) at the November 2005 Summit of the Americas in Mar del Plata, Argentina. Panama's strong international thrust was also evidenced by the fact that it served as Secretariat for the Free Trade of the Americas from 2001-2003. On November 5, 2004, Panama announced it would start negotiations to join the G-3 consisting of Colombia, Venezuela, and Mexico. However, negotiations to formally join the G-3's commercial framework have not begun.

150. Panama has bilateral investment agreements with the United States, the United Kingdom, France, Switzerland, Germany, Taiwan, Canada, Argentina, Spain, Chile, Uruguay, the Czech Republic, Netherlands, Cuba, and Korea. Panama also has signed bilateral investment agreements with the Dominican Republic, Mexico and Ukraine but these have not yet entered into force. Commerce Ministry officials have said that there have been some exploratory talks toward investment agreements with other countries, but they acknowledge that these discussions have a lower priority than ongoing free trade negotiations. In 2000, the United States and Panama amended their Bilateral Investment Treaty (BIT) to reflect Panama's joining the International Center for the Settlement of Investment Disputes (ICSID). Once the U.S.-Panama TPA is ratified and implemented, it would supersede the BIT.

1C. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

151. The United States and Panama signed a comprehensive Overseas Private Investment Corporation (OPIC) agreement in April 2000. OPIC offers both financing and insurance coverage against expropriation, war, revolution, insurrection, and inconvertibility for eligible U.S. investors in Panama. OPIC can insure up to US \$200 million per project for U.S. investors, contractors, exporters, and financial institutions. Financing is available for overseas investments that are wholly owned by U.S. companies or that are joint ventures in which the U.S. firm is a participant. Panama is a member of the Multilateral Investment Guarantee Agency (MIGA).

1D. LABOR

152. Panamanian labor law, in requiring the Labor Ministry's permission to dismiss employees for "economic reasons" may act as a legal barrier to a firm wishing to reduce its workforce or repatriate its capital. If a firm is insolvent, the law also gives workers priority over all other non-secured creditors.

¶53. According to the GOP figures, Panama's non-indigenous labor force as of August 2006 was approximately 2.14 million, with 85% employed in the private sector and 15% in the public sector. As of August 2006, non-indigenous unemployment officially declined to 9.1% from 10.3% in 2005, however, the GOP reports underemployment to be at 22.7% as of August 2006.

Pockets of chronic high unemployment continue, notably in the provinces of Colon and Panama, where several districts have unemployment rates in excess of 10%. In February 2006, the GOP hiked Panama's minimum wage by 8% raising the monthly minimum wage from \$263 per month to \$284.

¶54. Labor unions hold some political influence in Panamanian society and often protest in order to further their objectives.

¶55. While the GOP has periodically revised its labor code, including a modest revision in 1995, it remains highly restrictive. Several sectors, including the Panama Canal Authority, the Colon Free Zone, public sector employees, and export processing zones/call centers are covered by their own labor regimes and all or portions of the Labor Code may not apply. Employers outside of these areas such as tourism have called for greater flexibility, easier termination of workers, and the elimination of many constraints on productivity-based pay. Employers frequently cite the lack of skilled labor as a constraint to growth. In connection with the Panama Canal expansion and in recognition of the skilled worker shortage, the GOP, through the National Institute for Professional Formation and Training, has embarked on a \$55 million worker training program.

¶E. FOREIGN TRADE ZONES/FREE PORTS

¶56. Law 25 of 1996 provides for the development of "export processing zones" (EPZ's) as part of an effort to broaden the Panamanian manufacturing sector while promoting investment in former U.S. military bases transferred to Panama. The law also includes specific labor and immigration provisions that are more favorable than the current Panamanian labor code. The government also provides numerous tax incentives to companies that operate in EPZ's.

Companies operating in these zones may import inputs duty-free if products assembled in the zones are to be exported. Of the thirteen registered EPZ's, most remain small and underdeveloped with only a few tenants. They are said to be facing difficulties combating Panama's high relative wages, low industrial base, and weak infrastructure particularly outside the Panama-Colon Corridor. Law 25 also provides for the development of call centers. Of the 39 companies licensed to operate call centers, only 16 have begun operations. The call centers are operated mostly by U.S. companies and employ approximately 10,000 persons. Law 41 of 2004 provides for the development of "Panama Pacific Special Economic Area" in the former Howard Air Base to encourage investment, specifically regarding logistics, in the area. In 2006, Singapore Technologies Aerospace entered into an arrangement to use the facility to provide aircraft heavy maintenance services. Also in 2006, IP Leather and River Latin-America announced an \$18 million investment using the Howard Air Base facilities.

¶F. FOREIGN DIRECT INVESTMENT STATISTICS

See Appendices.

MAJOR FOREIGN INVESTORS

- AES Corporation
- American Airlines
- American Life Insurance Co.
- Ashmore Investment Ltd.
- Banco Azteca
- Banco Do Brasil
- Banco Cuscatlan
- Boeing
- Bristol Laboratories International Corp.
- Burger King Corp.

- Cable and Wireless (U.K.)
- Chiriqui Land Company (Chiquita)
- Chevron-Texaco
- Citibank, N.A.
- Clientlogic
- Coca-Cola Bottling Co.
- Colgate Palmolive
- Compania Recreativos S.A. (CODERE)
- Continental Airlines
- Decameron Hotels
- Dell Computers
- Delta Airlines
- DHL
- Dunkin Donuts
- El Paso Energy
- ENEL
- Exxon Corp.
- Evergreen Corp.
- Federal Express
- General Electric Consumer Finance
- Glidden
- Globeleq Ltd.
- Goldstar Corp
- Group Mall
- Grupo Olloqui
- Hong Kong Shanghai Bank Corp. (HSBC)
- Hospital Corporation of America
- Hutchison Port Holdings (Hong Kong)
- ICA (Mexico)
- Influent
- Johnson and Johnson
- Kansas City Southern Railway
- Kentucky Fried Chicken
- Kraft Foods, Inc.
- Maersk-Sealand
- Mail Boxes Etc.
- Marriott Hotel Corporation
- McCann-Erikson
- McDonald's Corporation
- Microsoft
- Mi-Jack Products
- Nabisco Brands Inc.
- NARS - National Asset Recovery Services, Inc.
- Nestle Company
- Office Depot
- Chas. Pfizer & Company, Inc.
- Panasonic Latin America
- Pepsi Co., Inc.
- Phillip Morris, Inc.
- PriceSmart
- Produbank
- PSINet
- PYCSA, S.A.
- SAB Brewing
- Samsung Electronics
- Schering Corp. International
- Singapore Technologies Aerospace
- Shell Co. (WI) Ltd.
- SITEL
- Sol Melia
- Sony Corporation
- Starwood Hotels
- Sterling Drugs International
- Stevedoring Services of America
- Swift and Company
- Swiss Bank Corp.
- Technoserve Inc.
- Union Fenosa, S.A.
- UNISYS USA
- Universal Fidelity corp.
- Wendys Restaurants

ECONOMIC AND TRADE STATISTICS

APPENDIX A: Country Data - Panama

Population: 3,280.00 (2006)

Population Growth Rate: 1.4% annual (est. 5 year average)

Religion: 82% Roman Catholic, 10% Evangelical, also has large populations of Jews, Hindus, Muslims and Buddhist.
(Complete religious freedom)
Government: Republican, Representative, Democratic, Unicameral Legislature
Language: Spanish, English widely spoken in business community.
Work Week: Monday-Friday and Saturday mornings depending on business

APPENDIX B: Domestic Economy (in millions of U.S. dollars unless otherwise indicated)

	2004	2005	2006
Current GDP (base 1996 U.S. Dollar)	13,099		14,005(1)
	15,125(2)		
Real GDP Growth Rate (%)	7.5%	6.9%	8.0%
Current GDP Per Capita (base 1996 U.S. Dollar)	4,131	4,318	
	4,611		
Central Government Spending (as % of GDP)	19.8%	19.0%	27.7%(3)
Inflation (CPI, end of period) (%)	2.0%	3.5%	2.5%
Unemployment (%)	11.8%	9.6%	8.6%(4)
Foreign Exchange Reserves (5)	634(1)		1,218(2)
	1,168(2)		
Balance of the Trust Fund (6)	1,216	1,151	1,136(7)
Average Exchange Rate (Panamanian Balboa to U.S. Dollar)	1.00	1.00	1.00
Public Debt to GDP ratio	70%	66%	60%

Source: GOP Comptroller General and Ministry of Economy and Finance

(1) Preliminary figure.

(2) Estimated.

(3) Superintendent of Banks

(4) As of August 2006.

(5) According to the IMF definition, since Panama does not have international reserves as conventionally defined, this includes Panama's reserve position at the IMF.

(6) The Trust Fund contains the proceeds from the privatization of government enterprises.

(7) Unaudited as of June 30, 2006.

APPENDIX C: Trade (in millions U.S. Dollars)

	2004	2005	2006 (thru Sept.)
Total Country Merchandise Exports	891.1	963.2	797.9
Total Country Merchandise Imports	3,592.2	4,152.8	
	3,613.3		
U.S. Share of Panama Imports	28.9%	27.3%	26.6%
U.S. Share of Panama Exports	48.6%	43.5%	38.7%

Source: GOP Ministry of Commerce and Industry; Comptroller General; 2006

The figures above do not include trade to/from the Colon Free Zone (CFZ), which the GOP keeps separate from official GDP figures. In 2006, the CFZ imported USD 7.04 billion and re-exported USD 7.52 billion. These levels reflect an increase in free zone imports of 13.3 percent, and an increase in re-exports of 12.9 percent, compared to 2005. The total net contribution of the CFZ to the Panamanian trade balance for 2006 (Exports-Imports) was USD 480 million, down from 2005, when the surplus was USD 689 million.

APPENDIX D: Investment Statistics

Foreign Direct Investment (FDI) in Panama

1997-2005

(In nominal US\$ millions and as percent of GDP)

Year	FDI	GDP	Stock/GDP
1997	1,300.2		9,730 13.36%
1998	1,218.7		10,935 11.14%
1999	517	11,456	4.51%
2000	623.8	11,620	5.37%
2001	467.1	11,807	3.95%
2002	98.6	12,272	0.80%
2003	817.5	12,933	6.32%
2004	1,003.9		14,179 7.08%
2005	1,027.0		15,483 6.63%

Source: GOP Comptroller General,s Office

Foreign Investment in Panama
By Country or Area of Origin 2004(1)

	US\$ Thousands	Percent of total
Net FDI		
Spain	253,196	25.22%
Hong Kong	\$72,106	7.18%
United States	\$70,804	7.05%
South Korea	\$66,175	6.59%
Japan	\$61,200	6.09%
Switzerland	\$52,824	5.26%
Venezuela	\$35,712	3.55%
Taiwan	\$20,929	2.08%
Argentina	\$18,895	1.88%
Costa Rica	\$12,737	1.27%
Ecuador	\$3,228	0.32%
Canada	\$1,549	0.15%
Others	\$683,802	68.12%
Mexico	(\$27,538)	(2.74%)
United Kingdom	(\$39,221)	(3.90%)
Colombia	(\$282,550)	(28.15%)
Total	\$1,003,848	100%

Source: GOP Comptroller General,s Office
(1) Preliminary figures.

Foreign Direct Investment
By Sector 2005

	US\$ Millions	Percent of Total	%
Colon Free Zone Businesses	440.9	42.9%	
Banks, Int,l License	110.6	10.8%	
Banks, General License	169.7	16.5%	
Other Businesses	305.8	29.8%	
Total	1,027.0	100%	

Source: GOP Comptroller General,s Office
Eaton